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MFRI ANNOUNCES SECOND QUARTER FISCAL 2016/17 FINANCIAL RESULTS

- *Net sales of \$22.9 million, down 9% from prior-year quarter*
- *Loss from continuing operations reduced by 60% from prior-year quarter*
- *Net income of \$0.4 million, or \$0.06 per diluted share, after including positive results from discontinued operations*
- *Received a significant new pipeline project for Canadian energy company*

NILES, IL, September 9, 2016 -- MFRI, Inc. (NASDAQ: MFRI) announced today financial results for the second fiscal quarter ended July 31, 2016.

CEO Bradley Mautner remarked, “MFRI turned in an improved performance in the face of a challenging environment. The steps we have been taking during recent quarters to focus our strategic efforts on the Piping businesses, as well as adjusting our staff and infrastructure accordingly, had a constructive impact on our continuing business. In addition, the wind down of our fabric filter business is almost complete as we have shipped the remaining orders and sold most of the inventory and operating assets, which contributed positively to our results for the quarter.

“I am particularly pleased with our progress in broadening the set of offerings we bring to the market and expanding our activities in North America. During the first half of the year, we saw increased demand for our leak detection products. More recently, our subsidiary Perma Pipe Canada, of which we took full ownership in February 2016, secured an important project with one of Canada’s largest integrated energy companies. Perma Pipe Canada was selected to process an anti-corrosion coated and insulated pipeline project that will consist of two lines, totaling 180 miles (300 km) in eastern Alberta.

“We are delighted to have secured this project, especially given the very tough conditions in today’s energy markets. In a highly contested competition – which likely represents one of the largest pipeline project awards in Canada this year – we were able to demonstrate that our strength in both engineering and manufacturing offered the best solutions to meet the customer’s requirements. The award also demonstrates the validity of our strategy to offer to the Canadian market all products and services Perma Pipe supplies in the U.S. Perma Pipe Canada will start production this month and is expected to continue shipments through March 2017.”

Mr. Mautner continued, “In the Middle East, conditions remain difficult due to the economic downturn precipitated by low oil prices and the significant delays in initiating various projects until markets stabilize. However, we are managing our global business well in the face of these challenges and the changes we have made throughout our operations have enabled our Company to continue and progress despite lower volume.

For the second quarter, net sales were down 9%, but gross margin increased to 13% from 12% and the cost-reduction measures we have taken will help support our financial performance in the second half of fiscal 2016/2017.”

Mr. Mautner concluded, “As we have noted in past announcements, our Piping business is project driven and sales can vary widely from year to year or even quarter to quarter. As of August 31, 2016, our backlog was \$52.9 million, up 27% from July 31, 2016, reflecting activity in Canada as well as improved recent bookings in the Middle East. We believe the new projects demonstrate the success of our strategy to diversify our products, services and geographies given the reduced project availability from slumping oil prices. The list of available opportunities remains strong particularly in the Middle East and although it is difficult in this environment to accurately forecast timing, we are hopeful additional projects will be secured in the Middle East this fall.

“Accordingly, even given today’s soft energy market and the continuing reduction in capital allocations to infrastructure development, we believe that investing in the specialty piping space and broadening our portfolio of offerings represent a compelling long-term strategy and that MFRI is well positioned to capitalize on the opportunities.”

BACKLOG

	August 31,	July 31,	April 30,	Jan. 31,
Backlog (\$ in thousands)	2016	2016	2016	2016
Piping Systems	\$52,905	\$41,532	\$47,851	\$47,937

DISCONTINUED OPERATIONS

The Company began winding down the last of its filter businesses in May 2016. It is currently engaged in liquidating the remaining assets of its domestic fabric business, which include its Winchester, Virginia facility. The facility’s sale is expected to occur in the third quarter of 2016. This business is reported as discontinued operations in the consolidated financial statements and the notes thereto.

SECOND FISCAL QUARTER ENDED JULY 31, 2016

SALES - Net sales decreased 9% to \$22.9 million in the current quarter from \$25.1 million in the prior-year quarter. The decrease was driven by weak demand in the Middle East due to the economic downturn in the region affected by low oil prices.

GROSS PROFIT - Gross margin increased to 13% of net sales in the current quarter from 12% of net sales in the prior-year quarter due to favorable margins in domestic oil and gas and projects completed in India. Gross profit decreased due to pricing pressure in the Middle East.

EXPENSES - Operating expenses decreased to \$4.8 million from \$5.7 million despite a one-time legal settlement of \$0.8 million partially offset by \$0.5 million gain in foreign currency exchange. The operating expense decrease was due to \$0.4 million lower stock compensation expense and reduced staffing.

PRETAX LOSS FROM CONTINUING OPERATIONS - Pretax loss from continuing operations was \$1.9 million in the quarter versus \$2.7 million in the prior-year quarter. Excluding the extraordinary item of \$0.8 million, pre-tax loss in the fiscal 2016/2017 period was \$1.1 million. The factors contributing to the quarterly results were:

- reduced volume in North American oil and gas operations affected by low oil prices
- competitive pricing pressure and uncertain market conditions in the Middle East
- a one-time \$0.8 million lawsuit settlement
- \$0.4 million related to the Canadian facility now included in the consolidated financial statements
- increased professional services associated with the changes in the Company's business structure to concentrate on a single line of business
- cost reduction initiatives resulting in decreased general and administrative staff expenses.

SIX MONTHS ENDED JULY 31, 2016

SALES - Net sales increased 1% to \$45.9 million year-to-date from \$45.4 million in the prior-year period. The Canadian operations contributed \$4.5 million, offset by decreases in year-over-year revenue in the Middle East due to weak demand resulting from the economic downturn in the region affected by low oil prices.

GROSS PROFIT - Gross margin decreased to 11% of net sales year-to-date from 12% of net sales in the prior-year. Gross margin and gross profit decreased due to competitive pricing pressure in the Middle East and operations of the newly acquired Canadian facility, which had relatively low capacity utilization in the first half of the year.

EXPENSES – Operating expenses decreased to \$11.3 million from \$11.6 million despite a one-time legal settlement of \$0.8 million and the addition of the Canadian expenses in the period. In the first quarter, the Company had a reduction of its workforce and incurred severance expense of \$0.3 million.

PRETAX LOSS FROM CONTINUING OPERATIONS – Pretax loss from continuing operations was \$8.3 million year-to-date versus \$6.1 million in the prior-year period. Excluding three extraordinary items included below totaling \$2.7 million, pre-tax loss in the fiscal 2016/2017 period was \$5.6 million. The factors contributing to the 2016 results were:

- reduced volume in North American oil and gas operations affected by low oil prices
- competitive pricing pressure and uncertain market conditions in the Middle East
- \$1.1 million related to the Canadian facility now included in the consolidated financial statements
- increased professional services associated with changing the Company's business structure to concentrate on a single line of business
- cost reduction initiatives resulting in decreased general and administrative staff expenses.
- extraordinary items:
 - a non-cash loss of \$1.6 million from the consolidation of the joint venture
 - a one-time \$0.8 million lawsuit settlement
 - \$0.3 million in severance costs.

TAXES - The Company's effective tax rate ("ETR") from continuing operations year to date was 16.1% compared to 7.4% during the prior-year comparative period. The change in the ETR from the prior year-to-date to the current year-to-date is mainly due to lower activity in the United Arab Emirates, the Canadian acquisition and to the allocation of tax expenses between continuing operation, other comprehensive income and discontinued operations when applying intra-period allocation rules. The Company remains in a domestic NOL carryforward position.

NET LOSS - Net loss was \$5.8 million compared to a net loss of \$7.0 million in the prior-year's period.

MFRI, Inc.

MFRI, Inc. is a global leader in pre-insulated piping and leak detection systems for oil and gas gathering, district heating and cooling, and other applications. It uses its extensive engineering and fabrication expertise to develop piping solutions that solve complex challenges regarding the safe and efficient transportation of many types of liquids. In total, MFRI has operations at seven locations in five countries.

Forward-Looking Statements

Statements and other information contained in this announcement that can be identified by the use of forward-looking terminology constitute "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbors created thereby, including, without limitation, statements regarding the expected future performance and operations of the Company. These statements should be considered as subject to the many risks and uncertainties that exist in the Company's operations and business environment. Such risks and uncertainties include, but are not limited to, the project nature of the business, the increasing international nature of the business, economic conditions, market demand and pricing, competitive and cost factors, raw material availability and prices, global interest rates, currency exchange rates, labor relations and other risk factors.

MFRI's Form 10-Q for the period ended July 31, 2016 will be accessible at www.sec.gov and www.mfri.com. For more information, visit the Company's website or contact its investor relations representative, LHA.

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share data)

	Three Months Ended July 31,		Six Months Ended July 31,	
	2016	2015	2016	2015
Net sales	\$22,859	\$25,147	\$45,928	\$45,424
Cost of sales	19,879	22,021	40,956	39,943
Gross profit	2,980	3,126	4,972	5,481
Operating expenses:				
General and administrative expense	3,370	4,227	8,463	8,933
Selling expense	1,450	1,429	2,854	2,648
Total operating expenses	4,820	5,656	11,317	11,581
Loss from operations	(1,840)	(2,530)	(6,345)	(6,100)
(Loss) income from joint venture	—	(49)	—	116
Loss on consolidation of joint venture	—	—	(1,620)	—
Interest expense, net	97	162	323	83
Loss from continuing operations before income taxes	(1,937)	(2,741)	(8,288)	(6,067)
Income tax benefit	(1,077)	(473)	(1,334)	(447)
Loss from continuing operations	(860)	(2,268)	(6,954)	(5,620)
Income (loss) from discontinued operations, net of tax	1,309	(123)	1,109	(1,426)
Net income (loss)	\$449	(\$2,391)	(\$5,845)	(\$7,046)
Weighted average common shares outstanding				
Basic	7,481	7,277	7,416	7,264
Diluted	7,603	7,277	7,416	7,264
Loss per share from continuing operations				
Basic and diluted	(\$0.11)	(\$0.31)	(\$0.94)	(\$0.77)
Earnings (loss) per share from discontinued operations				
Basic and diluted	\$0.17	(\$0.02)	\$0.15	(\$0.20)
Earnings (loss) per share				
Basic and diluted	\$0.06	(\$0.33)	(\$0.79)	(\$0.97)

Note: Earnings per share calculations could be impacted by rounding.

MFRI, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

<i>(In thousands)</i>	July 31, 2016	January 31, 2016
ASSETS	Unaudited	
Current assets		
Cash, cash equivalents	\$11,612	\$16,631
Restricted cash	943	2,324
Trade accounts receivable, net	28,341	36,090
Inventories, net	14,051	15,625
Assets of discontinued operations	2,548	15,733
Assets held for sale	—	3,062
Prepaid expenses and other current assets	7,031	7,583
Total current assets	64,526	97,048
Property, plant and equipment, net of accumulated depreciation	37,168	25,400
Other assets		
Goodwill	2,657	—
Note receivable from joint venture	—	1,905
Investment in joint venture	—	9,112
Other assets	5,076	4,658
Total other assets	7,733	15,675
Total assets	\$109,427	\$138,123
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Trade accounts payable	\$7,883	\$11,026
Accrued liabilities, compensation, incentives, and payroll taxes	11,004	14,610
Current maturities of long-term debt	4,998	14,006
Liabilities for discontinued operations	1,320	15,465
Liabilities held for sale	—	3,439
Other current liabilities, including customer deposits	7,120	8,170
Total current liabilities	32,325	66,716
Long-term liabilities		
Long-term debt, less current maturities	7,254	1,493
Other long-term liabilities	5,189	886
Total long-term liabilities	12,443	2,379
Stockholders' equity		
Total stockholders' equity	64,659	69,028
Total liabilities and stockholders' equity	\$109,427	\$138,123

MFRI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

<i>(In thousands)</i>	Six months ended July 31,	
	2016	2015
Operating activities		
Net loss	(\$5,845)	(\$7,046)
Adjustments to reconcile net loss to net cash flows provided by operating activities		
Depreciation and amortization	2,830	2,903
Loss on consolidation of joint venture	1,620	—
Gains on disposal of subsidiaries	(867)	—
Cash surrender value on life insurance policies	(132)	(64)
Other, net	(2,105)	81
Changes in operating assets and liabilities		
Accounts receivable	16,277	(2,352)
Accrued compensation and payroll taxes	(5,884)	4,642
Other assets and liabilities	(5,413)	1,909
Net cash provided by operating activities	481	73
Investing activities		
Proceeds from sales of property and equipment	11,930	—
Proceeds from surrender of corporate-owned life insurance policies	1,894	—
Acquisition of interest in subsidiary, net of cash acquired	(4,672)	—
Capital expenditures	(994)	(4,997)
Receipts on loan from joint venture	—	1,890
Net cash provided by (used in) investing activities	8,158	(3,107)
Financing activities		
Proceeds from debt borrowings	27,260	51,169
Payments of debt on revolving lines of credit, other	(41,083)	(49,005)
Other financing	61	44
Net cash (used in) provided by financing activities	(13,762)	2,208
Effect of exchange rate changes on cash and cash equivalents	104	326
Net decrease in cash and cash equivalents	(5,019)	(500)
Cash and cash equivalents - beginning of period	16,631	10,508
Cash and cash equivalents - end of period	\$11,612	\$10,008